

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00
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INFO AMEMBASSY BONN
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PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 07834, MARCH 17, 1977

1. SUMMARY

SINCE THE FINAL RESULTS OF THE MUNICIPAL ELECTIONS
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TEN DAYS AGO, THE COUNTRY HAS BEEN WONDERING WHETHER
P.M. BARRE WOULD MODIFY HIS ECONOMIC POLICY. HIS
RESPONSE AT LYON INDICATED THAT THERE WOULD BE NO
CHANGE IN THE BARRE PLAN OTHER THAN A LITTLE
ADDITIONAL AID TO STIMULATE INVESTMENT (SEE PARIS
09003). THE ONLY OTHER MAJOR NEWS ITEM, ALTHOUGH NO
SURPRISE, WAS THE 0.7 PERCENT INCREASE IN PRICES IN

FEBRUARY. END SUMMARY

2. DETAILS ON FF 4 BILLION TO FINANCE FIRMS'
INVESTMENTS

THE CONDITIONS ON THE FF 4 BILLION LOANS TO FIRMS TO FINANCE INVESTMENT, ANNOUNCED BY P.M. BARRE LAST SUNDAY AT LYON, HAVE JUST BEEN SPECIFIED. THE FF 2 BILLION TO LARGE FIRMS WILL BE LENT THROUGH THE CREDIT NATIONAL IN THE FORM OF MEDIUM AND LONG-TERM LOANS. THE LONG-TERM LOANS WILL CARRY A RATE OF INTEREST AROUND 10 PERCENT. THE INTEREST RATE WILL BE LOWER THAN THE NORMAL 11 PERCENT RATE OF THE CREDIT NATIONAL DUE TO A REDUCTION IN COMMISSION CHARGES. THE MEDIUM-TERM LOANS WILL ALSO CARRY A LOWER RATE OF INTEREST AND WILL NOT BE SUBJECT TO THE LIMITS ON CREDIT.

THE FF 2 BILLION FOR SMALL AND MEDIUM-SIZED FIRMS WILL BE FINANCED BY A NEW NATIONAL BORROWING. THE INTEREST RATE ON THESE LOANS WILL BE SUBSIDIZED WHICH WILL COST THE GOF FF 250 MILLION DISTRIBUTED OVER FIVE YEARS. THESE LOANS WILL HAVE A MATURITY OF 15 YEARS WITH A TWO-YEAR GRACE PERIOD AND WILL CARRY 8.5 PERCENT INTEREST RATE DURING THE FIRST FIVE YEARS AND 11.0 PERCENT INTEREST RATE DURING THE FOLLOWING TEN YEARS.

3. GOF WILL TAKE MEASURES TO SUPPORT ACTIVITY IN
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BUILDING AND PUBLIC WORKS SECTORS

M. FOURCADE, MINISTER OF EQUIPMENT, ANNOUNCED THAT CERTAIN MEASURES WOULD BE TAKEN BY THE GOF TO SUPPORT ACTIVITY IN THE BUILDING AND PUBLIC WORK SECTOR. THE PUBLIC PROGRAMS FOR 1977 WILL BE ACCELERATED, FAVORING THOSE AREAS WHICH ARE EXPERIENCING PARTICULAR DIFFICULTIES. CERTAIN STRUCTURAL MEASURES WILL ALSO BE TAKEN TO IMPROVE COMPETITION, ESPECIALLY TO GUARD AGAINST PRICE-FIXING. FURTHERMORE, INCREASED EMPHASIS WILL BE PLACED ON EXPORTS BY INCREASING THE CONTRACTS FOR EQUIPMENT AND INFRASTRUCTURE IN INTERNATIONAL FINANCIAL PROTOCOLS.

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4. RATE OF INFLATION INCREASES IN FEBRUARY

AS HAD BEEN EXPECTED, THE RATE OF PRICE INCREASE WAS CONSIDERABLY HIGHER IN FEBRUARY THAN IN DECEMBER OR JANUARY, REGISTERING 0.7 PERCENT INCREASE AS COMPARED TO 0.3 PERCENT INCREASE IN BOTH OF THE TWO PREVIOUS MONTHS. THE INCREASE IN PRICES OF AGRICULTURE PRODUCTS WAS 1.1 PERCENT, MANUFACTURES UNCLASSIFIED

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0.4 PERCENT, AND SERVICES 0.8 PERCENT.

THE PRICE INCREASE REFLECTS THE VERY SHARP INCREASE

IN THE PRICES OF IMPORTED PRIMARY MATERIALS, PARTICULARLY COFFEE, COCOA, TEA AND PETROLEUM. THE INCREASE IN THE PRICE OF GAS CONTRIBUTED 0.12 POINTS TO THE INDEX WHILE THE INCREASE IN COFFEE PRICES CONTRIBUTED 0.11 POINTS. THE DECREASE IN THE VALUE ADDED TAX HAD ONLY A NEGLIGIBLE EFFECT ON PRICES IN FEBRUARY.

ANOTHER MAJOR FACTOR WAS THE INCREASE BY AS MUCH AS 40 PERCENT IN THE FEES OF CERTAIN DENTISTS WHICH ADDED 0.09 POINTS TO THE INDEX. STRESSING THAT THE GOF'S RECOMMENDATIONS REGARDING INCOME WERE APPLICABLE TO EVERYONE WITHOUT EXCEPTION, MINISTER DELEGATE DURAFOUR SAID THAT THE NECESSARY MEASURES WOULD BE TAKEN TO REDUCE THESE FEES BACK TO THEIR LEVEL OF DECEMBER 31, 1976.

5. PUBLIC TARIFFS WILL INCREASE ON APRIL 1

WITH THE EXCEPTION OF R.A.P.T., THE URBAN TRANSPORTATION SYSTEM, ALL PUBLIC TARIFFS WILL INCREASE BY 6.5 PERCENT ON APRIL 1. THIS ALONE WILL RESULT IN A 0.4 PERCENT INCREASE IN THE PRICE INDEX FOR APRIL.

6. MINIMUM WAGE WILL BE INCREASED APRIL 1

THE MINIMUM HOURLY WAGE (S.M.I.C.) WILL BE INCREASED BY AT LEAST 2.2 PERCENT ON APRIL 1. BY LAW S.M.I.C. IS AUTOMATICALLY INCREASED BY THE RATE OF PRICE INCREASE OVER A THRESHOLD OF 2.0 PERCENT. S.M.I.C. WAS LAST INCREASED ON DECEMBER 1.

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7. WAGES INCREASED BY 15.1 PERCENT IN 1976.

ACCORDING TO THE MINISTRY OF LABOR, HOURLY WAGES INCREASED BY 15.1 PERCENT IN 1976. THE RATE OF WAGE INCREASE WAS 4.1 POINTS HIGHER THAN THAT OF PRICES. IN THE FOURTH QUARTER WAGES INCREASED BY 2.9 PERCENT AS COMPARED TO 2.1 PERCENT INCREASE OF PRICES.

8. VALUE OF STOCK AND BOND ISSUES DECLINED IN 1976

THE VALUE OF STOCK AND BOND ISSUES IN FRANCE FELL BY 4 PERCENT FROM FF 52.8 BILLION IN 1975 TO 50.7 BILLION IN 1976. THE PROPORTION OF GROSS CAPITAL FORMATION FINANCED BY THE FINANCIAL MARKET FELL FROM 12.5 PERCENT

IN 1975 TO 10 PERCENT IN 1976, EXCLUDING THE PUBLIC
TREASURY BORROWING OF FF 2.5 BILLION LAST JUNE. THE
FOLLOWING TABLE SUMMARIZES FINANCIAL MARKET OPERATIONS
IN RECENT YEARS.

INVESTMENTS ON THE FINANCIAL MARKET 1971-1976

	1971	1972	1973	1974	1975	TOTAL	1976	1976- 6TH PLAN	1975 IN PER- CENT
SHARES	7.4	8.5	9.5	9.7	8.7	43.8	8.5	-2.3	
CONVERTIBLE									
BONDS	0.6	1.2	1.2	1.2	1.4	5.6	1.1	-21.4	
ORDINARY									
BONDS	24.5	28.4	36.5	23.1	42.7	155.2	41.1	-3.7	
TOTAL									
BONDS	25.1	29.6	37.7	24.3	44.1	160.8	42.2	-4.3	
GENERAL									
TOTAL	32.5	38.1	47.2	34.0	52.8	204.6	50.7	-4.0	

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NET
AMORTI-
ZATION(5.5)(8.4) (8.5)(10.L)(10.4) (42.9)(9.5)

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NET
INVEST-
MENT 27.0 29.7 38.7 23.9 42.4 161.7 41.2 - 2.8

THIS TREND HAS CONTINUED IN RECENT MONTHS. THE VALUE
OF ISSUES OF BOTH STOCKS AND BONDS WAS FF 3,376.7
MILLION IN FEBRUARY AS COMPARED TO FF 3,850.9 IN
FEBRUARY 1976. STOCK ISSUES DECLINED FROM FF 941.3
MILLION IN FEBRUARY A YEAR AGO TO FF 589.6 MILLION.
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BOND ISSUES WERE FF 2,787.1 MILLION IN FEBRUARY 1977
AND FF 2,909.6 MILLION IN FEBRUARY 1976.

9. TRADE SURPLUS FOR AUTOMOBILE INDUSTRY SLIGHTLY
LOWER IN 1976 THAN IN 1975

THE AUTOMOBILE INDUSTRY REGISTERED A FOREIGN TRADE
SURPLUS OF FF 15.8 BILLION IN 1976, SLIGHTLY BELOW
THE 1975 SURPLUS OF FF 16.0 BILLION. ALTHOUGH EXPORTS
INCREASED BY 27 PERCENT TO FF 34.7 BILLION, IMPORTS
INCREASED BY 65.8 PERCENT TO FF 18.9 BILLION. THE
SHARE OF AUTOMOBILE EXPORTS IN TOTAL FRENCH EXPORTS
INCREASED FROM 12 PERCENT IN 1975 TO 13 PERCENT IN 1976.

THE AUTOMOBILE INDUSTRY CONTINUED ITS EXCELLENT
PERFORMANCE IN FEBRUARY. PRODUCTION AND EXPORTS
WERE 14 PERCENT AND 14.4 PERCENT ABOVE THEIR
RESPECTIVE LEVELS A YEAR AGO. HOWEVER, IMPORTS
WERE 18.4 PERCENT HIGHER WHICH WILL RESULT IN
A MUCH LOWER TRADE SURPLUS THIS YEAR UNLESS THIS
TREND IS REVERSED.

10. BUILDING INVESTMENT: FINANCIAL RETURNS
SUGGEST CONTINUED SLOWDOWN

ACCORDING TO DATA RELEASED BY THE BOURSE ON 36 BUILDING INVESTMENT COMPANIES OWNED MAINLY BY MAJOR BANKS, PROFITS (PRICE/EARNINGS RATIOS) HAVE REMAINED ABOUT THE SAME FOR THE PAST TWO YEARS. ALMOST TWO-THIRDS OF THESE FIRMS, WHICH SELL SUBSCRIPTIONS TO RAISE CAPITAL FOR BUILDING INVESTMENT, EARNED BETWEEN 6 AND 8 PERCENT DURING 1975-1976, WHILE ONLY FOUR OF THEM EARNED BETWEEN 10 AND 11 PERCENT IN BOTH YEARS AND 10 EARNED BETWEEN 8 AND 10 PERCENT IN 1976, COMPARED TO 6 IN 1975. THIS RATE OF RETURN IS NOT PARTICULARLY GOOD, COMPARED TO 9.625
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PERCENT FOR CALL MONEY, BETWEEN 10 AND 11 PERCENT FOR BONDS GUARANTEED BY THE GOVERNMENT, ETC. DESPITE THIS, 21 OF THE 36 FIRMS REGISTERED AN INCREASE IN SHARE PRICES DURING 1976, WHILE THE REMAINDER EXPERIENCED NO SIGNIFICANT CHANGE, INDICATING A CONTINUED PREFERENCE BY SOME FRENCH INVESTORS FOR REAL ESTATE PAPER. THIS PREFERENCE PROBABLY REFLECTS AN EXPECTATION OF CONTINUED APPRECIATION OF REAL ESTATE VALUES. HOWEVER, IT SEEMS LIKELY THAT THE MEDIOCRE RATE OF RETURN ON BUILDING INVESTMENT REFLECTED IN BUILDING INVESTMENT COMPANY RETURNS WILL REMAIN FOR SOME TIME ONE OF THE MAJOR REASONS FOR THE SLOWDOWN IN THE RATE OF NEW CONSTRUCTION EXPERIENCED SINCE 1974 IN FRANCE.

11. CERTAIN SECTORS IN CHEMICAL INDUSTRY RECOVERED
FROM 1975 SLUMP

THE CHEMICAL INDUSTRY SHOWED A CLEAR RECOVERY IN 1976 WITH RESPECT TO THE PREVIOUS YEAR. HOWEVER, ALTHOUGH THE VOLUME OF PRODUCTION INCREASED BY 13.6 PERCENT, IT WAS NOT SUFFICIENT TO GET BACK TO THE LEVEL OF ACTIVITY IN 1974. FURTHERMORE, PRODUCTION WAS SUSTAINED BY FOREIGN DEMAND SINCE INTERNAL DEMAND REMAINED STATIONARY IN CERTAIN BRANCHES. EXPORTS INCREASED BY 27 PERCENT TO FF 29.5 BILLION, WHILE IMPORTS INCREASED BY 34.2 PERCENT TO FF 26.3 BILLION, RESULTING IN A SURPLUS OF FF 3.2 BILLION. THE ORGANIC CHEMICALS INDUSTRY LED THE WAY WITH A 32.2 PERCENT INCREASE IN PRODUCTION. ON THE OTHER HAND, PRODUCTION IN THE INORGANIC CHEMICAL INDUSTRY INCREASED BY ONLY 3.1 PERCENT IN CONTRAST TO A DECLINE OF 16.8 PERCENT IN 1975. THIS IS DUE TO

THE CRITICAL SITUATION IN THE FERTILIZER INDUSTRY.
FOR THE COMING MONTHS, CHEMICAL PRODUCERS COUNT ON
ONLY A VERY WEAK EXPANSION.
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12. FRENCH EXTERNAL BORROWING

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THE FOLLOWING LONG-TERM EXTERNAL FRENCH BORROWING WAS
NOTED IN THE PRESS DURING THE REPORTING PERIOD:

CAISSE CENTRALE DE COOPERATION ECONOMIQUE, DM 100
MILLION, 12 YEARS, 7.00 PERCENT INTEREST RATE.

13. OTHER REPORTS SUBMITTED DURING THE PERIOD

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TELEGRAMS

PARIS

09116 STATUS OF RATIFICATION OF AMENDED IMF

ARTICLES OF AGREEMENT & QUOTA INCREASE 3/29

09003 ECONOMIC POLICY WILL BE CONTINUED BUT

INVESTMENT WILL RECEIVE A SMALL PUSH 3/28

08937 BARRE: NO CHANGE IN BASIC POLICY OF

BARRE PLAN 3/25

08762 UPDATE OF FORECAST OF FRENCH ECONOMY

FOR 1977 3/24

08343 BOURSE REACTION TO SECOND ROUND

MUNICIPAL ELECTIONS 3/22

08186 ASIAN DEVELOPMENT BANK ANNUAL MEETING 3/21

08055 CHURCH SUBCOMMITTEE REPORT 3/18

07872 GOVERNMENTAL TRADE CREDITS FOR CUBA 3/17

AIRGRAMS

PARIS

A-116 FRENCH FOREIGN EXCHANGE HOLDINGS 3/28

A-101 FRENCH FOREIGN EXCHANGE HOLDINGS 3/18

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